The Treatment of Intellectual Property in the National Accounts

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What do the current standards say?

Intellectual Property is produced

The original Intellectual Property is shared through producing and selling copies of the original

Intellectual Property suffers real degradation, reflected in payments for a real service

Alternative

IP is a creation of the mind (research), not economic production

IP is accessed through access devices (hosts according to Peter Hill) which are produced (development)

IP does not suffer wear and tear

IP does lose value through “obsolescence”

R&D as production

Defence of the current standards point out that R&D involves a large amount of economic production e.g. clinical trials in the pharmaceutical industry

This production is of access devices – not the IP itself

The IP may be altered as a result of development, but this does not make it "produced"

Example

Tomato soup

Research

New idea – make it more spicy - Spicy tomato soup

Development

Make successive prototypes (access devices). Try different spices, different amounts – refine the idea

Example

Note that the idea of spicy soup does not feed in to the original recipe, but changes the recipe

The new idea does not provide a new input of capital services to the original production function, it is a technical change to the production function

Implications for productivity analysis

Current standards

New IP provides additional flow of real capital services in the production function (endogenous)

Alternative (pre-1993)

New IP results in technical change to the existing production

Access devices may be capital assets which provide real capital services in the production function

Summary of differences between current standards and alternative model

Concept/measure	SNA/ESA	Alternative
Intellectual Property	produced	Created (non-produced)
Research	Production of IP	Discovery – recognition of new asset
Development	Production of IP	Production of access device
Payments for use / access	Payments for services	Payments for access (property income)
Role of IP in productivity analysis	Provision of capital services	Technical change to production function

The analogy with land

Why is the rent of natural land treated as an income transfer, but the rent of a house as a "rental" - the payment for a service?

Natural land does not suffer wear and tear – in a normal year, the land will be as good at the end as at the start – no real service is provided and so we class rent as property income, not to be included in the production account

The analogy with IP is strict – no wear and tear requires income transfer, not service payment

The Irish question

The alternative model resolves the issue of large sudden changes to GDP by classifying the service payments for access to the IP as property income

Payments within an economy cancel out, and flows across national boundaries do not affect GDP

But they do affect GNI, as this is an income measure

Implications for multinational corporation tax

Accounting standards for companies treat interest, dividends and other property income as part of profits

Using the alternative model (consistent with pre-1993 national accounting standards), the well-defined and measurable *operating surplus* of national accounts provides an alternative to a profits measure including property income

The role of language

Intellectual Property Products

Labelling can be "sticky"

Intangible assets

Out of date – is software intangible?

Research & development assets

Research – IP   development – prototypes, access devices, blue prints, originals

The message

The international standards of national accounts on the treatment of Intellectual Property (IP) should revert to the pre-199 SNA standard

The current standards recognise the returns on IP to be real service payments, not royalties (property income) as in previous international standards

Under these assumptions, the Irish GDP 26% revision would disappear.